

Message Text

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INFO AMEMBASSY BEIRUT

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EO 11652: GDS

TAGS: BEXP EG

SUBJECT: SUMED PIPELINE

1. ALLEN S. GOLDIE, VICE PRESIDENT, FIRST NATIONAL CITY BANK, AND ROGER TAMRAZ, VICE PRESIDENT OF KIDDER PEABODY, CALLED ON JULY 28 TO BRING ME UP TO DATE ON THE STATUS OF THEIR NEGOTIATIONS ON THE SUMED PIPELINE. BOTH GOLDIE AND TAMRAZ WERE OPTIMISTIC CONCERNING THEIR CHANCES, ALTHOUGH THEY SAID THAT THE KUWAITIS AND THE SAUDIS NOW SEEM TO BE WORKING AT CROSS PURPOSES. THE KUWAITIS WERE PROPOSING AN ARRANGEMENT THAT WOULD GIVE THE FOREIGN EXCHANGE CONTRIBUTORS 49 PERCENT OF THE EQUITY. THE KUWAITIS APPARENTLY WERE ANTICIPATING THAT THIS WOULD MAKE A MAJOR POLITICAL IMPACT FOR KUWAIT ALTHOUGH SOME OF THE EQUITY MIGHT BE PASSED ON TO OTHER INVESTORS. KUWAITIS ARE INTERESTED IN UTILIZING KIDDER PEABODY AS ADVISORS ON THE TECHNICAL ASPECTS OF THE ARRANGEMENT. SAUDIS WERE MORE INTERESTED IN AN ARRANGEMENT WHEREBY ALL OF THE FOREIGN EXCHANGE COST WOULD BE PROVIDED THROUGH DEBT FINANCING TO BE UNDERWRITTEN BY KIDDER PEABODY.

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2. I POINTED OUT THAT THE EGYPTIANS WOULD FIND THE

PROSPECTS OF AN IMMEDIATE RETURN VERY INVITING EVEN IF IT MEANT THEY HAD TO SELL 49 PERCENT OF THE EQUITY IN THE PROJECT. GOLDIE REPLIED THAT HE THOUGHT THE SAUDI ARRANGEMENT USING DEBT FINANCING COULD BE SET UP IN SUCH A WAY THAT THE REPAYMENTS TO THE CREDITORS COULD BE STRETCHED OUT, THUS ALLOWING THE EGYPTIANS TO RECEIVE SOME RETURN OVER AND ABOVE THE OPERATING COSTS DURING THE EARLY YEARS OF THE PROJECT.

3. BOTH GOLDIE AND TAMRAZ EMPHASIZED THAT THE KUWAITIS AND SAUDIS WERE BOTH INTERESTED IN EXPORT-IMPORT BANK PARTICIPATION IN THE FINANCING PACKAGE IN ORDER TO LOWER THE INTEREST RATES. SINCE INTERNATIONAL RATES HAVE RECENTLY BEEN RISING, EXIM PARTICIPATION WOULD THUS MAKE THE AMERICAN PROPOSAL MORE COMPETITIVE VIS-A-VIS THE EUROPEAN CONSORTIUM LED BY THE FRENCH. EXIM PARTICIPATION WOULD ALSO GUARANTEE A LARGER SHARE OF THE BUSINESS FOR US SUPPLIERS.

4. GOLDIE SAID HE WAS RETURNING TO THE UNITED STATES AND WOULD BE CALLING ON THE EXIM BANK ON AUGUST 2 OR 3 TO ASK THEM FOR A PRELIMINARY COMMITMENT FOR PARTICIPATION IN SUMED BOTH AS GUARANTORS FOR A FIRST NATIONAL CITY BANK LOAN AND AS DIRECT LENDERS. HE SAID HE WOULD CALL STERNER BEFORE TALKING TO THE EXIM BANK. TAMRAZ IS ALSO TRAVELLING TO THE US, WHERE HE PLANS TO DISCUSS THE EXIM GUARANTEE WITH JOHN CONNALLY'S LAW FIRM IN HOUSTON ON AUGUST 8. THE CONNALLY FIRM WILL PREPARE THE FORMAL EXIM APPLICATION. TAMRAZ IS THEN RETURNING TO SAUDI ARABIA WHERE HE HAS AN APPOINTMENT WITH MINISTER OF PETROLEUM YAMANI ON AUGUST 12, AND HE HOPES TO BE ABLE TO CONVEY A FIRM OFFER TO THE SAUDIS BY THAT DATE. THE EGYPTIAN GENERAL PETROLEUM CORPORATION IS MEETING WITH BOTH THE SAUDIS AND KUWAITIS ON AUGUST 7 IN AN ATTEMPT TO EXPLORE THE POSSIBILITIES OF COMBINING THE KUWAITI AND THE SAUDI APPROACH TO THE FINANCING. NONE OF THE AMERICAN FIRMS WILL BE REPRESENTED AT THAT MEETING.

5. DEPARTMENT WILL NO DOUBT BE ASKED BY FIRST NATIONAL CITY BANK TO GIVE SUPPORT FOR ITS APPROACH TO EXIM.

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